

Ms. Karen L. Bowne, Senior Reimbursement Manager
Manor Care Health Services, Inc.
11555 Darnestown Road
Gaithersburg, Maryland 20878-3200

Re: AC# 3-MNC-J5 – Manor Care of Charleston, Inc.

Dear Ms. Bowne:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1994 through September 30, 1995. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

MANOR CARE OF CHARLESTON, INC.

CHARLESTON, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1996
AC# 3-MNC-J5**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 6, 1997

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Charleston, Inc., for the contract periods beginning October 1, 1996 and for the twelve month cost report period ended September 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Charleston, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Manor Care of Charleston, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
October 6, 1997

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA
State Auditor

MANOR CARE OF CHARLESTON, INC.

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1996
AC# 3-MNC-J5

	<u>10/01/96- 03/31/97</u>	<u>04/01/97- 09/30/97</u>
Interim reimbursement rate (1)	\$57.66	\$57.66
Adjusted reimbursement rate	<u>57.38</u>	<u>57.38</u>
Decrease in Reimbursement Rate	\$ <u>.28</u>	\$ <u>.28</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 15, 1997

MANOR CARE OF CHARLESTON, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1996 Through March 31, 1997
AC# 3-MNC-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.06	\$21.91	\$43.70	\$21.91
Dietary	<u>.60</u>	<u>5.08</u>	<u>8.59</u>	<u>5.08</u>
Subtotal	<u>\$3.66</u>	26.99	52.29	26.99
Laundry/Housekeeping/Maint.	\$1.06	4.44	7.04	4.44
Administration & Med. Rec.	<u>-</u>	<u>9.85</u>	<u>8.55</u>	<u>8.55</u>
Subtotal	<u>\$1.06</u>	41.28	<u>\$67.88</u>	39.98
<u>Costs Not Subject to Standards:</u>				
Utilities		1.69		1.69
Special Services		.10		.10
Medical Supplies & Oxy.		1.15		1.15
Taxes and Insurance		1.05		1.05
Legal Fees		<u>.04</u>		<u>.04</u>
TOTAL		<u>\$45.31</u>		44.01
Inflation Factor (4.90%)				2.16
Cost of Capital				9.21
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.06
Cost Incentive - For Gen. Serv. & Dietary				3.66
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(2.97)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$57.38</u>

MANOR CARE OF CHARLESTON, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1997 Through September 30, 1997
AC# 3-MNC-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.27	\$21.91	\$46.75	\$21.91
Dietary	<u>.60</u>	<u>5.08</u>	<u>8.59</u>	<u>5.08</u>
Subtotal	<u>\$3.87</u>	26.99	55.34	26.99
Laundry/Housekeeping/Maint.	\$1.06	4.44	7.04	4.44
Administration & Med. Rec.	<u>-</u>	<u>9.85</u>	<u>8.55</u>	<u>8.55</u>
Subtotal	<u>\$1.06</u>	41.28	<u>\$70.93</u>	39.98
<u>Costs Not Subject to Standards:</u>				
Utilities		1.69		1.69
Special Services		.10		.10
Medical Supplies & Oxy.		1.15		1.15
Taxes and Insurance		1.05		1.05
Legal Fees		<u>.04</u>		<u>.04</u>
TOTAL		<u>\$45.31</u>		44.01
Inflation Factor (4.90%)				2.16
Cost of Capital				9.21
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.06
Cost Incentive - For Gen. Serv. & Dietary				3.87
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(3.18)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$57.38</u>

MANOR CARE OF CHARLESTON, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-MNC-J5

<u>EXPENSES</u>	<u>Totals (From Schedule SC 13) as Adjusted by DH&HS</u>	<u>Adjustments</u> <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,060,443	\$ 17,751(8)	\$ 33,575(5) 2,957(5) 17,501(9)	\$1,024,161
Dietary	235,658	13,180(4) 53,137(8)	5,186(5) 4,701(6) 54,662(9)	237,426
Laundry	31,794	7,169(8)	722(5) 7,156(9)	31,085
Housekeeping	81,626	17,416(8)	2,768(5) 17,089(9)	79,185
Maintenance	104,240	21,977(8)	5,057(2) 2,098(3) 1,264(5) 20,715(9)	97,083
Administration & Medical Records	495,509	5,059(6) 40,639(8)	500(3) 6,296(5) 694(5) 65,035(9) 8,364(9)	460,318
Utilities	79,008	16,497(8)	16,650(9)	78,855
Special Services	20,706	-	5(5) 16,180(7)	4,521
Medical Supplies & Oxygen	69,606	1,073(7)	13,180(4) 343(5) 3,558(6)	53,598
Taxes & Insurance	49,006	9,010(8)	9,165(9)	48,851

MANOR CARE OF CHARLESTON, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-MNC-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Legal Fees	1,838	189(8)	296(9)	1,731
Cost of Capital	362,955	44,896(8)	21,679(1)	430,641
		<u>61,161(10)</u>	<u>16,692(9)</u>	
Subtotal	2,592,389	309,154	354,088	2,547,455
Ancillary	40,631	-	-	40,631
Non-Allowable	285,923	21,679(1)	228,681(8)	327,657
		5,057(2)	61,161(10)	
		2,598(3)		
		53,810(5)		
		15,107(7)		
		<u>233,325(9)</u>		
Total Operating Expenses	<u>\$2,918,943</u>	<u>\$640,730</u>	<u>\$643,930</u>	<u>\$2,915,743</u>
TOTAL PATIENT DAYS *	<u>46,735</u>	<u>-</u>	<u>-</u>	<u>46,735</u>
* Adjusted to 97% occupancy				
Total Beds	<u>132</u>			

MANOR CARE OF CHARLESTON, INC.
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-MNC-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 110,015	
	Other Equity	250,770	
	Nonallowable	21,679	
	Accumulated Depreciation		\$ 360,785
	Cost of Capital		21,679
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	5,057	
	Maintenance		5,057
	To disallow cable TV expense HIM-15-1, Section 2106		
3	Nonallowable	2,598	
	Maintenance		2,098
	Administration		500
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		
4	Dietary	13,180	
	Medical Supplies		13,180
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

MANOR CARE OF CHARLESTON, INC.
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-MNC-J5

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	53,810	
	Nursing		33,575
	Restorative		2,957
	Dietary		5,186
	Laundry		722
	Housekeeping		2,768
	Maintenance		1,264
	Administration		6,296
	Medical Records		694
	Medical Supplies		343
	Special Services		5
	To adjust group health insurance and workers' compensation expense to allowable HIM-15-1, Section 2304		
6	Other Income	3,200	
	Administration	5,059	
	Dietary		4,701
	Medical Supplies		3,558
	To properly offset income against related expenses HIM-15-1, Sections 2102.3 and 2328 State Plan, Attachment 4.19D		
7	Medical Supplies	1,073	
	Nonallowable	15,107	
	Special Services		16,180
	To adjust co-insurance for Medicare Part B services to allowable State Plan, Attachment 4.19D		

MANOR CARE OF CHARLESTON, INC.
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-MNC-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Restorative	17,751	
	Dietary	53,137	
	Laundry	7,169	
	Housekeeping	17,416	
	Maintenance	21,977	
	Administration	40,639	
	Legal	189	
	Utilities	16,497	
	Taxes and Insurance	9,010	
	Cost of Capital	44,896	
	Nonallowable		228,681
	To reverse DH&HS adjustment to remove indirect costs related to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Nonallowable	233,325	
	Restorative		17,501
	Dietary		54,662
	Laundry		7,156
	Housekeeping		17,089
	Maintenance		20,715
	Administration		65,035
	Medical Records		8,364
	Utilities		16,650
	Taxes and Insurance		9,165
	Legal		296
	Cost of Capital		16,692
	To remove indirect costs related to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

MANOR CARE OF CHARLESTON, INC.

Adjustment Report

Cost Report Period Ended September 30, 1995

AC# 3-MNC-J5

ADJUSTMENT			
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Cost of Capital Nonallowable	61,161	61,161
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$1,004,715	\$1,004,715

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MANOR CARE OF CHARLESTON, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-MNC-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>132</u>
Deemed Asset Value	4,220,436
Improvements Since 1981	1,344,445
Accumulated Depreciation at 9/30/95	<u>(1,796,318)</u>
Deemed Depreciated Value	3,768,563
Market Rate of Return	<u>.070</u>
Total Annual Return	263,799
Return Applicable to Non-Reimbursable Cost Centers	(17,013)
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>4,017</u>
Allowable Annual Return	250,803
Depreciation Expense	195,774
Amortization Expense	3,267
Capital Related Income Offsets	(2,511)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(16,692)</u>
Allowable Cost of Capital Expense	430,641
Total Patient Days (Minimum 97% Occupancy)	<u>46,735</u>
Cost of Capital Per Diem	\$ <u><u>9.21</u></u>

MANOR CARE OF CHARLESTON, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-MNC-J5

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.96
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.95</u>
Reimbursable Cost of Capital Per Diem	\$ 9.21
Cost of Capital Per Diem	<u>9.21</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>